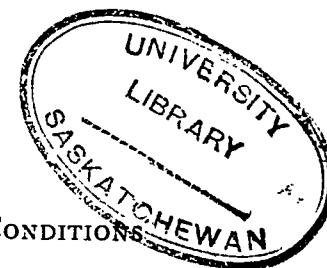


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# THE GRAIN MARKET SITUATION

SECOND ANNUAL REVIEW OF CONDITIONS  
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# THE GRAIN MARKET SITUATION

It is encouraging to note, in reviewing the wheat situation, that world wheat trade during the past crop year, measured in bushels, was decidedly larger than during the preceding year and attained a moderately high volume. Canada exported about 70,000,000 bushels more wheat than during the year before. Since the beginning of this crop year world wheat trade has been substantial in volume, with the possibility of this year's total passing that of last year. These facts are set down first so they may be kept in mind while unfavorable factors in the situation are under review.

## **Wheat and General Depression**

The great world depression has been the background of the picture of the wheat situation. To establish a sense of proportion it is necessary to remember that the depression afflicts not only wheat but all agriculture, not only agriculture but every branch of industry and trade, and not only Canada but the greater part of the world. Armies of unemployed large enough for a world war have been created. Values have melted away at a rate equivalent to the cost of such a war, and commerce has been blockaded almost as effectively as by hostile navies. Governments have been upset, and revolutions have occurred as the result of economic conditions. When the depression first hit Canada it appeared for a time that the primary causes were to be found mainly in agricultural conditions. As the depression has broadened and been intensified during the past two years its causes, although still obscure, are seen to be more deep-seated. Agriculture and other branches of the world's industries are suffering in common from fundamental disturbances in the world's economic structure. The present period is distinguished from previous periods of depression by a greater amount of unemployment than formerly known. It has also brought a greater interference with trade and a greater interlocking of conditions in one country with those of others, a fact accounted for by more complex structure of world trade than had existed during previous periods. In recent months the purely financial aspects of the situation have been marked; for example, by the German situation which resulted in an international moratorium on reparations and war debt; by a run on the world's banking centre at London which forced a temporary abandonment of the gold standard, and in the United States by drastic liquidation of securities, and by very large withdrawals of currency from circulation. Panic on a world-wide scale has at several times in recent months seemed to be an imminent danger, averted only by emergency banking measures.

Although the stock market crash in October, 1929, was the first generally accepted sign of a reversal in economic conditions, it is now seen that the falling off in business really began much earlier so that events have had their present trend for nearly three years. It is quite possible that the recently developed financial crises marked the culmination of the period.

Such a condition affects international trade in wheat because it reduces purchasing power; because it introduces complexities into the making of international payments; because it results in fresh trade barriers; and because of apprehension created among buyers and dealers in grain.

**Prices** Since the close of the war there have been two long continued major declines in wheat prices. The decline which started in 1920 brought prices rapidly down from a high of more than \$3.00 per bushel to less than \$1.00 per bushel in 1924. There was then an extremely rapid rise which more than doubled prices within the course of a year, and prices in excess of \$2.00 per bushel were recorded in January, 1925. From that time until the end of 1930 the fall in prices was almost continuous, with the low point reached after a very precipitate decline continued throughout 1930, and extended to some extent into 1931. There were, it is true, some upward fluctuations, and some of them violent during the period, such as the fallacious bull market of 1929, when prices were marked up and but little wheat was sold. Essentially, however, we had during these years a fall in wheat prices from practically a \$2.00 level to almost a 50 cent level, with the sharpest decline at the end. Sellers, generally speaking, did not recognize what was going on and in an effort to fight the market, or in the hope of a reversal of the trend, held back supplies from market until finally the weight of withdrawn supplies, represented by world carryovers, combined with changes in economic conditions, resulted in the 1930 collapse of prices. So far as Winnipeg cash prices are concerned that collapse appears to have culminated at the end of 1930, for while there have been during 1931 occasional dips below the levels reached last December, such dips have been minor fluctuations. During the greater part of the year the market, although perilously close to the 50 cent level for 1 Northern, never got quite that low, and only seldom rose above the 60 cent mark. Indeed, if the cash price for No. 3 Northern wheat is taken as a basis, the fluctuations for most of the year have been mostly confined within a range of 5 cents per bushel.

In periods of price change agricultural prices tend to be the first affected and the decline in wheat prices had set in earlier than the corresponding declines which have taken place in other prices. Broadly speaking, while the fall in wheat prices was checked, other prices have continued to fall. In reviewing the situation a year ago it was pointed out that the then existing relation between wheat prices and many other prices could not long continue and that either other prices would have to come down to a level more nearly corresponding with that of wheat or the price of wheat would tend to rise. To a large extent such adjustment has occurred, but unfortunately its effects are slow to reach the farmer as a purchaser, and adjustment on a low price level is much less satisfactory than one on a higher level would be. The process of price adjustment, although subject to many interferences, is still at work, with some indications now of an upward tendency in wheat prices.

**World Production and Carryover of Wheat** Quite outside of general economic conditions, wheat has been in trouble on its own account as a result of production in excess of consumption. Steadily for a series of years the world has been producing wheat more rapidly than it has used it. The following table shows the increase of world carryover, calculated for the principal exporting countries outside of Europe, for stocks afloat and for United Kingdom port stocks. The figures are in millions of bushels and at July 1st of each year:\*

\*Bulletin WH-64, issued by Bureau of Agricultural Economics, United States Department of Agriculture, September 3, 1931.

1925.....	277
1926.....	279
1927.....	340
1928.....	433
1929.....	616
1930.....	569
1931.....	659

Interior carryovers in Europe, for which reliable figures are not obtainable, are not included. There is reason to believe that these were smaller this summer than in previous years, which would tend to offset the latest increase in carryovers elsewhere. Out of the 659,000,000 bushels given as this year's carryover, 467,000,000 bushels were concentrated on the North American continent and out of an increase during six years of 380,000,000 bushels in annual carryover, 300,000,000 bushels have taken place on this continent. To a remarkable extent, therefore, the world carryover of wheat is concentrated in North America. The carryover increase might be compared with the following figures for world production (exclusive of Russia and of China):

1903-13 (average).....	3,041,000,000
1923-27 (average).....	3,454,000,000
1928-29.....	3,998,000,000
1929-30.....	3,551,000,000
1930-31.....	3,823,000,000

When all returns for 1931-32 are in, the corresponding figure for this year may be less by 250,000,000 bushels. There has also been an important decline in European rye production, 150,000,000 bushels below the average of the preceding two years, which in due course may have its effect upon the wheat situation.

Including figures for Russia and China there is a world production well over 5,000,000,000 bushels annually. It is evident that world consumption of wheat has actually been increasing but the increase has fallen behind the increase in production by an average of about 70,000,000 bushels a year. The piled-up surplus is sufficiently alarming when compared with the actual requirements of importing countries for a single year, but if we compare it with a possible fall in world production from year to year; or if we compare the annual excess with total consumption of a single year, or with the great variation in yield that may occur in a single country, they do not appear to be very great. These facts should be borne in mind as indicating the possibility of world production falling below world consumption in one year or in a series of years. A comparatively slight increase in total consumption, or a comparatively slight decrease in total production, would be sufficient to restore a balance.

The following are the official Canadian carryovers for a series of years (wheat in Canadian positions only):

In 1925.....	20,000,000 bushels
In 1926.....	31,000,000 bushels
In 1927.....	43,000,000 bushels
In 1928.....	71,000,000 bushels
In 1929.....	109,000,000 bushels
In 1930.....	111,000,000 bushels
In 1931.....	133,000,000 bushels

This year's production will hardly yield an export surplus of much more than 140,000,000 bushels, or including the carryover in Canadian and American positions, of more than 280,000,000 bushels. Exports equal to the 267,000,000 bushels of last year would almost wipe out the carryover, and exports of 200,000,000 bushels which were almost attained even during the very poor year of 1929-1930 would bring the carryover down to a reasonable figure.

In the United States the carryover calculated as at July 1st was:

1927.....	123,000,000 bushels
1928.....	128,000,000 bushels
1929.....	247,000,000 bushels
1930.....	275,000,000 bushels
1931.....	319,000,000 bushels

At the end of the current crop year, the world's excess carryover in wheat will probably be largely concentrated in the United States.

**The Export Market: Where It Is** Since Canada is competing with other countries on an international wheat market, it is well to keep in mind just what constitutes that market.

Total world shipments of wheat in 1930-31 amounted to 787,000,000 bushels,\* an increase of 174,000,000 bushels from the 613,000,000 bushels of the previous year. The highest figure on record is for 1928-29, with 928,000,000 bushels, while only in one other year, 1926-27, have world shipments passed 800,000,000 bushels. The average world shipments for five years before the war were 625,000,000 bushels.

Dividing world shipments between European and non-European countries, there is seen to have been a very large increase in the wheat imports of non-European countries. Prior to the war these averaged 80,000,000 bushels annually. Last year they were 180,000,000, a figure exceeded only once before, in 1928-29, when China imported very large quantities of low grade wheat and flour. Increasing use of wheat by Oriental peoples, larger population in some importing countries, such as Brazil, and development of flour markets in tropical countries have all played their part in bringing about this increase. Europe, itself, prior to the war, imported about 543,000,000 bushels annually, so last year's shipments of 603,000,000 bushels represent an improvement of about 60,000,000 bushels from the pre-war average. They also represent an improvement of some 116,000,000 bushels from the previous year, 1929-30, when European imports were at an extremely low level. But in other years European imports have frequently exceeded 600,000,000 bushels, so last year's European trade must be considered only moderate.

About one-third of total European imports normally go to Great Britain, whose requirements range from 200,000,000 to 220,000,000 bushels annually, but are likely to be higher this year because of a short crop. The British market is at once the largest and the steadiest, so far as volume is concerned, in the world. On the continent, France, Italy and Germany make up a group of countries whose import requirements are highly variable, although in some years their total imports may be greater than those of Great Britain. How variable are their imports is shown by the figures for eleven months of 1930-31.\*\* Germany took 27,000,000

\*Wheat Studies of the Food Research Institute, Stanford University, September, 1931.

\*\*International Institute of Agriculture, Monthly Crop Report, August, 1931.

bushels as against 50,000,000 the year before; France took 64,000,000 bushels as against 32,000,000 the year before, and Italy 80,000,000 bushels as against 40,000,000 the year before. Holland, Belgium and Switzerland constitute a group of countries with a comparatively steady import demand, regularly accounting among them for somewhat more than 100,000,000 bushels of wheat.

Canada was by far the largest exporter last year, supplying 267,000,000 bushels. The United States exported approximately 103,000,000\* bushels, the Argentine 118,000,000, Australia 145,000,000, and Russia 93,000,000. Danubian countries and Northern Africa supplied most of the balance.

**Wheat and Politics** Governments of various countries concerned themselves with wheat marketing problems even more during the past than during the preceding year. To such an extent was this the case, and so thoroughly did wheat marketing become intertwined with domestic and international politics, that up to May of this year it seemed at least reasonably probable that before long ordinary commercial channels and methods for the international movement and marketing of wheat might be abandoned and that such transactions might be conducted in the future either directly between governments or between agencies under governmental control.

In the great non-European exporting countries, Canada, the United States, Australia and the Argentine, the idea had developed in 1924 and 1925 that through combination of producers' organizations it would be possible to maintain or advance the price of wheat. In the United States attention was diverted from the international price to an attempt to hold up domestic prices above world levels, and this resulted in the development of the Farm Board. The idea persisted very strongly in Australia, especially in government circles, in spite of much opposition, and appears to have made a deep impression in the Argentine.

In Europe the idea that concerted action by producing countries might result in price control was widely accepted and had far reaching results. It played an important part in the development of defensive policies against wheat imports by the principal continental countries, exemplified by high tariffs, by milling quotas, and import prohibitions or regulations, to which also other considerations contributed. Ever present apprehension of war, leading to a determination to be as nearly self sufficient as possible in food supplies, had also a part in the policies of importing countries, and so did attempts to protect their exchanges, by limiting the quantities of imports, for which they feared they would be unable to pay.

In the exporting countries of Europe the idea of price control resulted in the creation of export monopolies, the provision of export premiums and bounties, and the establishment of government controlled interior prices.\*\* Attempts were made by Bulgaria, Hungary, Jugo-Slavia, Poland and Rumania to secure common action in the sale of their export surpluses.

High international politics, questions of the balance of power, and the League of Nations also came into the picture. Under the leadership of

\*Official total of United States exports was 132,276,000 bushels, but allowance for 19,059,000 bushels imported and re-exported brings net exports down to 113,217,000 bushels. A further deduction of 10,000,000 bushels has been made to allow for increase of United States wheat in Canadian positions. See statistics in Bulletin WH-64, Bureau of Agricultural Economics, United States Department of Agriculture, September 3, 1931.

\*\*Serious financial difficulties have recently resulted in Bulgaria, Rumania and Jugo-Slavia from these efforts at price control. See Bulletin WH-66, Bureau of Agricultural Economics, United States Department of Agriculture, October 17, 1931.

Aristide Briand, French Foreign Minister, the idea of a solidarity of Europe as against the rest of the world was developed and made a certain amount of progress. Partly this came about through attempts to break down tariff walls which appeared to be destroying continental trade, while observers also saw in it a desire on the part of France to increase her security by preventing customs union between Germany and Austria, and by building up the strength of the countries of Eastern Europe to act as a political counterpoise. Wheat exporting countries of Europe sought to take full advantage of the situation by developing the theory that they were entitled as of right to the first place in European importing markets, and should have not only preferential duties to make this possible, but also international loans to assist in the development of their agriculture.\* As late as September of this year Canada's representative at a League of Nations meeting at Geneva found it necessary to protest against tariffs on wheat discriminating in favor of European countries as against Canada and other non-European countries.\*\*

With the emergence of Russia as a wheat exporter there developed a conflict of motives, a desire to take advantage of cheap wheat, and a fear of the consequences if that country should develop too much strength.

It is impossible in a brief review to trace the whole course of events, or follow all the international conferences\*\* held. It is sufficient to note that wheat was becoming almost as much a political as an economic problem.

**Collapse at London of Idea of International Price Control** In March of this year the International Institute of Agriculture summoned at Rome a world wheat conference, attended by representatives of 42 countries, both exporting and importing.

There were no developments of importance, except an exposure of the realities of the situation, over-production of wheat both in recent years and at present, and a desire of many countries to share in a market, too narrow at present to satisfy the ambitions of all.

Out of the Rome conference grew the London conference of wheat exporting nations.

The London conference, held in May under the chairmanship of the Canadian High Commissioner in London, was attended by representatives from Canada, The Argentine, Australia, Bulgaria, Hungary, India, Jugoslavia, Poland, Rumania, Russia, and the United States. Australia presented a very definite scheme for establishing an international marketing organization, involving agreement upon the proportion of wheat which might be marketed from each exporting country. This was seriously considered, but representatives found it quite impossible to agree upon the proportions of the international markets to which each country was entitled and, in addition, the United States refused definitely to have anything to do with such a plan. The conference was able to agree on nothing except that another meeting might be held and that organization might be set up for improving statistical information. The London conference was thus important, not for anything it accomplished, but because of the final and definite failure of schemes which had been long

\*Wheat Studies of the Food Research Institute of Stanford University in Vol. VII, No. 9, August, 1931, gives a lengthy study of the international wheat conferences during 1930-1931, which it lists at 16. Included, however, as one is the British Imperial Conference in London, October 1, November 14, 1930.

\*\*Several of such treaties have been negotiated by Danubian countries. They may fail to some extent of the intended effect, either because of conflict with existing commercial treaties with other countries or because of the greater value of wheat from other countries for mixing purposes.

under discussion for marketing export wheat through international organization.

It seems inevitable that had such a plan succeeded Canada would have had to be content with a quota in the international market much smaller than she has enjoyed in recent years, while the carrying out of any obligations thus assumed would have made necessary government restrictions upon wheat growing in Canada. The possibilities of international friction under organization such as proposed are somewhat alarming; difficulties of securing permanent adherence of different countries to quotas to which their own farmers might object would appear to be insurmountable; and the re-action of importing countries to a scheme designed to raise international wheat prices at their expense could hardly have been favorable. It is not now necessary to argue such points, but simply to know that the proponents of such schemes definitely failed to get them established. The tendency of international wheat markets to be put under inter-governmental control seemed to have been definitely reversed in favor of trading on a purely commercial basis. On such a basis there is greater likelihood of Canada securing full recognition for the quality of her wheat and of taking advantage of what competitive advantages she may have in production.

**High Duties Against Wheat** Following are some recently prevailing duties against wheat, expressed in terms of United States gold dollars:

Germany . . . . .	\$1.62 per bushel
Austria . . . . .	.11 per bushel
Finland . . . . .	.69 per bushel
France . . . . .	.86 per bushel
Greece . . . . .	.55 per bushel
Italy . . . . .	1.07 per bushel
Latvia . . . . .	.37 per bushel
Lithuania . . . . .	.82 per bushel
Poland . . . . .	.77 per bushel
Sweden . . . . .	.27 per bushel
Switzerland . . . . .	1.05 per bushel
Czecho-Slovakia . . . . .	.44 per bushel
Turkey . . . . .	.81 per bushel
United States . . . . .	.42 per bushel
Japan . . . . .	.34 per bushel*

In addition to the duties, regulations varying from time to time have been imposed to limit imports of wheat. These have ranged from total prohibition (imposed for a time in Spain and Portugal), regulations limiting the quantity of foreign wheat in flour mixtures to from 3 to 35 per cent., and governing of imports either by special licenses or by government offices.

A number of duties have been increased during the year,\*\* and although news despatches occasionally suggest a possibility of relaxation in Europe, continuation of high duties for some time yet appears probable. High duties have meant high prices, and the following prices for domestic wheats in mid-July may be noted:

\* Japan exempts feed wheat from duty, a fact currently reflected in comparative prices for that grade on the markets at Vancouver and western prairie points.

\*\* Duties in a number of different countries are subject to frequent variation. Germany admits Durum wheat for manufacture of semolina and starch at a much lower rate of duty, which is one factor in premiums which have prevailed in Canada for Durum wheat. In most of the high duty countries tariffs on flour are on a basis so much higher as to prohibit flour imports as against wheat.

France, at Paris.....	\$1.88 per bushel
Italy, at Milan.....	1.56 per bushel
Germany, at Berlin.....	1.63 per bushel
Czecho-Slovakia, at Prague.....	1.22 per bushel
Austria, at Vienna.....	1.16 per bushel

Thus, over a large part of Europe there are no low prices for wheat, either to encourage consumption or to check production. The fact that wheat is still imported in spite of such barriers indicates a decidedly strong demand and seems to justify the opinion that the consumption of wheat would be considerably expanded if prices were allowed to decline anywhere near an open market basis. Also significant is the fact that domestic prices while high are considerably below the cost of imported wheat with duty added, indicating a willingness on the part of millers to pay high premium prices for limited quantities of imported wheat for mixing with domestic wheats. This is of great importance to Canada, for no wheat has been found so valuable in adding strength to a milling mixture as is high-grade Western Canadian wheat. It must be noted, too, that in spite of a policy encouraging domestic production by high duties, now continued for several years, there has been in most continental countries no increase in wheat production or in wheat acreage. It is a reasonable assumption, not only that the greater part of continental Europe cannot increase its wheat acreage, but also that except for the extraordinary protection now given wheat growing, a decline in wheat production would take place, and that farmers would find other forms of agriculture more profitable. In Great Britain such a decline has been in progress for a number of years, not only as a result of turning plow land into permanent grass, but by the substitution of fodder crops for wheat. In Germany during the past year there was an actual increase in wheat acreage from 4,400,000 acres to 5,350,000 acres, but this was accompanied by a practically corresponding reduction in acreage devoted to rye. A shift from rye to wheat production in Germany is to be welcomed by other wheat producing countries, since Germany consumes much more rye than wheat, and such a shift might result in a growing preference for wheat bread.

**United States Farm Board and United States Crops** Throughout the past crop year and up to the end of June, 1931, the United States Farm Board continued its policy of maintaining United States prices above world levels. It bought wheat steadily, essentially on government account, since the government will bear the loss, and ultimately it controlled about 265,000,000 bushels, or by far the greater part of the United States carryover. Its buying was abruptly discontinued with the end of the crop year, and United States prices fell sharply to world levels instead of being about 20 cents a bushel higher as they had been for some time. Although United States exports were much lower than in previous years, they were still over 100,000,000 bushels, instead of being cut off entirely as might have been expected to be the result of such a price policy. The explanation is that the Farm Board had itself sold some wheat at export prices while it was buying at higher prices; that its buying was not uniformly effective throughout the country, or for wheat in all positions; that some part of the country's export trade in flour was able to maintain itself against competition from other countries; and that in addition the export figures include many millions of bushels of wheat which, while it had left the

country, was still stored in Eastern Canada awaiting an opportunity for sale.

The Farm Board had commenced its efforts to sustain wheat prices when they were about \$1.25 per bushel. After it discontinued they fell well below 50 cents a bushel. It is now the subject of very bitter criticism in the United States for its failure to accomplish what it set out to do, and for the enormous losses it has sustained in both the wheat and in the cotton market, its operations in cotton having been even more disastrous than in the case of wheat. Undoubtedly, for a time, United States farmers received more money for their wheat than would have been the case without the Farm Board, partly at the expense of the government, and partly at the expense of domestic consumers who, for a time, paid higher flour prices. But the wheat it took off the market is now one of the principal depressing factors in the world situation, and by holding out impossible hopes of price improvement it encouraged farmers to continue heavy planting of wheat, even while it was preaching acreage reduction. In addition, the prices it maintained during the early summer brought a great deal of wheat off the farms and into commercial channels which otherwise, during a period of corn scarcity, would have been fed to livestock. First its buying and later its sales policy, because of uncertainty as to its actions, have been highly disturbing to wheat markets, and have put a restraint upon purchasers. Lately the Board has traded 25,000,000 bushels of wheat to Brazil for a supply of that country's surplus coffee. It has sold 15,000,000 bushels to the Chinese government on deferred payments for famine relief, and has sold 7,500,000 bushels direct to the German government on credit terms. It has made various sales through commercial channels. It seems probable that practically all of its current holdings will be worked off on the export market, possibly over two years or more, and that its activities along former lines will not be resumed.

The winter wheat crop of the United States produced in 1931 was remarkably heavy, an estimated total of 775,000,000 bushels, while the spring wheat crop, mainly produced in the Northwest States, was unusually light, at 109,000,000 bushels. This gives the United States an estimated total production of 884,000,000 bushels, or including the carryover, total supplies in sight at the beginning of this crop year of nearly 1,200,000,000 bushels. The short crop of spring wheat is producing an actual scarcity of that wheat, with premium prices being paid, and an increased demand from United States millers for Canadian wheat for mixing for their export flour trade. Feeding of wheat to livestock is now proceeding on a heavy scale.

An extensive reduction in winter wheat acreage seeded this fall is now forecast, both because of low prices, and because weather for a long time was extremely dry over a large part of the winter wheat belt. Should a short winter wheat crop result from these conditions, it would go a long way towards correction of present surpluses, and conditions in the winter wheat belt will be an important price factor during coming months.

**The Russian Situation** Russia is the world's largest producer and the world's largest consumer of wheat. Before the war she was also the world's largest exporter, a position now held by Canada. Mainly it was Russia's forced retirement from grain export during and after the war that made possible a great expansion in wheat

growing, both in Canada and in other countries. Now Russia has returned to the export field, intensifying the difficulties of other exporting countries. In 1930-31 Russia exported 93,000,000 bushels of wheat out of a total production estimated at 1,050,000,000 bushels. Prior to the war her export was 162,000,000 bushels out of an average annual production of 756,000,000 bushels.

After the war and the revolution Russian agriculture was reduced to a very low ebb, producing inadequate food supplies for the whole population. It appears to have been the lack of food for domestic purposes rather than any great desire to re-enter the export business, which led to a vast plan of re-making Russian agriculture, entered upon about three years ago. The plan was based upon a great concentration of farm management, both to replace individual production on small peasant holdings and to bring under cultivation new areas. A number of state-owned farms, running up to several hundred thousands of acres in area were created, while in other districts peasants were induced or forced to combine their efforts in large farms operated on a collectivist plan; and on both kinds of farms, machinery, including tractors, largely imported from the United States, was introduced to a remarkable extent. Wheat lent itself more than any other food to such methods of production and there has been a very large increase both in the area planted to wheat and in wheat production. It is officially reported that the acreage sown in 1931 was nearly 63,000,000 as against 58,400,000 the previous year. This year's crop on the larger acreage is believed to be somewhat smaller than last year, due to less favorable weather. Russia's shipments at the beginning of the crop season were at a far greater rate than last year, indeed, running for a while, as they did, at more than 4,000,000 bushels per week, or about 40 per cent. of the world shipments, they were greater than ever before. But trade opinion has been against Russia's ability to maintain heavy shipments throughout the year, or to reach last year's total exports.

The ideas of the outside world as to the economic and political situation in Russia and the processes of the Russian mind, are still in a highly confused state and definite information on many points is lacking. There are a number of facts, however, which should be kept in mind as a background for further information which may become available about the Russian situation. Russia has still some distance to go before attaining her pre-war volume of wheat exports. Russian wheat was not in the past and is not now grown primarily for export. It is grown principally to supply the need of her own population, a population which is rapidly expanding. Exports before the war were slightly over 20 per cent. of her total production. Exports in 1930-31, despite the fact that she had over 1,000,000,000 bushels of wheat, were less than 10 per cent. of the total production. Not only has the percentage of exports been small, but a very considerable portion of her wheat never leaves the area where it is grown, or, indeed, the farms upon which it is produced. Again the expansion of Russia, which, undoubtedly, is now in progress, is in the direction of Asia. A large part of her former population and her former area has been cut off by the creation of new states fronting on the Baltic Sea, including Finland, Estonia, Latvia, Lithuania and Poland. Her population is pushing forward into Asiatic Russia and this movement toward the east has set up new forces and new conditions difficult now to calculate. Wheat acreage important for export prior to the war was

largely concentrated in an area fairly close to the Black Sea. Recent expansion in wheat acreage has been mainly in Asia,\* some of it 2,000 miles or more from Black Sea ports and in areas inadequately supplied with transportation. Some of the new land broken up is in areas formerly believed to lack sufficient rainfall to insure a permanent agriculture. A large increase in live stock production is believed to be necessary, and attaining this may result in less pre-occupation with wheat. Permanent success of state and collective agriculture, and the ability of the Russian peasant to handle large scale machinery economically are yet to be proved.

Such wheat as has been recently exported appears to have gone out, not as result of a surplus over domestic needs so much as because of an insistent need for credits abroad, credits to a very large extent required to pay for agricultural machinery, essentially imported to increase domestic food supplies.

Important as is the Russian situation, care should be taken against drawing exaggerated conclusions from the known facts.

**India and China** Before the war India had an export trade in wheat averaging in excess of 51,000,000 bushels annually, and she was looked upon as a dangerous rival to the producers of this continent.

Since the war only in two years have her exports been on a large scale, and of late, although some quantities of wheat have been shipped abroad, she has occasionally been a net importer, mainly of Australian wheat. Her total production has averaged about 350,000,000 bushels in recent years. An official estimate of a yield of 600,000,000 bushels for China was made this year before the great floods took place. Their effects upon food supplies and on the demand for imports are as yet quite conjectural, and the troubles between Japan and China have introduced new factors of as yet unknown importance. Because of the exchange situation Australia has commanded the greater part of the Chinese import wheat trade during the past year. India and China, between them annually consuming up to 1,000,000,000 bushels of wheat, a great deal more than is consumed on the North American continent, are countries with a low per capita purchasing power, but because of their dense populations capable of very large total purchases. They might effect between them important changes in the world wheat picture. Their comparative importance in this respect is very much greater during a period of low prices, and their capacity to import during the current year is likely to be a significant factor in the market.

**Wheat and the Gold Standard** To the difficulties under which international trade was laboring, and particularly international trade in wheat, fresh difficulties were added when on September 26th of this year Great Britain went off the gold standard, officially for six months, but actually for an indefinite period. To the Canadian observer results were complicated by the fact that although so far as official statements were concerned Canada remained upon the gold standard, the Canadian dollar was depreciated and began to have a highly fluctuating value in terms of gold, in terms of sterling and in terms of United States dollars.

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\*For detail of sowings see Bulletin VII-64, Bureau of Agricultural Economics, United States Department of Agriculture, September 3, 1931, also map of Russia issued by W. Sanford Evans Statistical Service Winnipeg, September 4, 1931.

Almost at once there was an advance in the Liverpool price of wheat of about 20 per cent., roughly corresponding to the percentage drop in the value of the British pound expressed in gold, which is simply to say that as British shillings were worth less in the international market it took more of them to buy a quarter of wheat. In Canada we also saw higher wheat prices, because the Canadian dollar was depreciated, although at first Canadian prices did not rise to the full extent of depreciation of the Canadian dollar.

Immediately the change was welcomed by the Canadian farmer, since it meant more dollars for wheat, and greater value for wheat both for immediate purchases and for payment of debts. But it also meant an increase in the high tariff wall around Canada, an increase in cost of all imported goods, and a very decided check to the downward movement of other prices, which, at a fairly rapid rate, had been adjusting themselves more in conformity with the price of wheat. In so far as the fall of the Canadian dollar was accompanied by an increase in the price of wheat it meant lightening the load of his individual debts against a farmer, but at the same time the debts of Dominion, Provincial and Municipal Governments, largely payable abroad in terms of other currencies, became more burdensome. In general such effects of currency depreciation as are favorable tend to be immediate and to be plainly seen, while the unfavorable consequences are more obscure and take longer in presenting themselves.

**Acreage Reduction** World production of wheat has now been excessive for at least five years, and the production of 1930-31, taking into account Russia's crop, was by far the greatest in history. Excluding Russia, it has been exceeded only once, in 1928-29. For such a condition there are only two remedies, and both involve hardship. One is the rough cure of nature, through reduced yields, of which Western Canada has had a severe experience this year. The other is low prices, encouraging increased consumption, and forcing reduction of production. The former is quickly effective, the latter much slower in action. Up to the early months of this year no very important reductions in world acreage took place, but this year both Australia and the Argentine made substantial reductions in sowings. In 1930, Australia, under government propaganda for increased export material, and in the hope which was not realized of prices to be sustained by government action, increased her wheat area from 15,000,000 to 18,000,000 acres. This year a reduction to 13,700,000 acres is reported. Part of this may be attributed to unfavorable weather at seeding time, but a large part is probably due to a more or less definite abandonment of attempts to grow wheat on land not adapted to permanent production on a low price level. In the Argentine a 20 per cent. reduction in wheat acreage to 17,000,000 acres is reported. Thus, in the southern hemisphere, at least 8,000,000 acres, the expected production of which would have been close to 100,000,000 bushels have gone out of wheat production. In the United States a reduction of 4,500,000 acres in winter wheat area is forecast. In the United Kingdom, where wheat area has been reduced from about 2,000,000 acres to little over 1,000,000 acres since the war the reduction process was continued last year, and further reductions this year are possible.

Machinery is now so important a part of wheat production that so far as a large part of the world is concerned, production may be said to begin

in the factory, with the manufacture of a machine. For months a large part of the farm machinery factories of the world have been idle, a fact which sooner or later should find expression in wheat yields. Then, too, over extensive areas, artificial fertilizers are essential to satisfactory wheat yields. Demand for fertilizers has been at a low ebb in the world's markets. Agricultural credit is an essential factor in much of the world's wheat production, and the drying up of such credit must eventually be reflected in agricultural output.

**Coarse Grains** A brief reference to the coarse grains situation must be included. So far as oats are concerned we are probably close to a domestic basis. Last year's exports amounted to less than 8,000,000 bushels. Government figures indicated a very large carryover of oats in Canada, in fact more than 63,000,000 bushels, or practically three times that of the previous year. More than 80 per cent. of this, however, was reported as on farms and to a very large extent was held for feeding requirements, so was not intended for market.

Exports of barley during the past year amounted to 19,000,000 bushels. The barley carryover was reported as increased from 23,000,000 bushels to 29,000,000 bushels, but of this again by far the largest part was on farms, where most of it was undoubtedly held for feeding and not intended for market. As was the case a year ago, indications are lacking of a satisfactory market abroad for coarse grains, and there is not much encouragement to produce surpluses above the domestic needs of Canada. Some change in this respect, possibly only temporary, might be experienced before the end of the current crop year, for while supplies appear adequate in Europe they are no longer burdensome as they were a year ago. Adequate expansion of the Russian livestock industry might reduce the export surplus of feed grains from that country and a restoration of general prosperity in Europe would largely increase the demand for meat. Such events in time would have reactions on the coarse grains markets.

Canadian exports of rye, which in 1929-30 were less than 350,000 bushels, increased during the past year to 2,000,000 bushels. The carryover at the end of the crop year was 14,000,000 bushels. Most of our rye has to seek an export outlet and the lack of export demand gives little encouragement to continue rye production, and, in fact, there was a very substantial drop from 1,370,000 to 892,000 acres in the acreage seeded to rye in Western Canada in 1931. What effect Europe's comparatively small rye crop this year will have in creating an effective export demand is yet to be determined.

The demand for flax seed, and for linseed oil, has been reduced because of general conditions. The United States crop is short even of reduced demands this year, but the Argentine has increased flax production, and that country may be said to dominate the world export trade in flax. Canada exported 2,000,000 bushels of flax last year, but will have only a small export surplus this year.

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**Conclusion** Canada's ability to compete with other countries on the world market in cost of producing wheat, as well as in quality of wheat, has frequently been asserted. There is no reason for a change of view in that respect, but it would be folly to say that many Canadian producers could long continue to grow wheat on a commercial basis under such relative prices as have recently prevailed. But there is no reason to believe that any large number of producers of wheat anywhere could do so, and it is not Canada's ability in that respect that has lately been under test. The test that has been in progress has rather been of ability to hang on under conditions unprofitable to all. The next phase, logically to be expected, is one in which conditions, while remaining sufficiently adverse to force and to keep high cost and inefficient producers out of the running, will permit at least some return to efficient and low-cost producers of high quality wheat. Some factors have been mentioned tending to bring about such a change.

The system of forces which governs the price of wheat and the fortunes of the farmers of Western Canada is extremely complex. At any time some new force, political, economic or natural, developing almost anywhere over a large part of the earth's surface, may enter into the system, effecting results difficult enough to distinguish afterwards and quite impossible to calculate in advance. Due allowance must be made for the unknown in taking into account those things which seem to point toward some improvement.

It is to be hoped that as the supply of Canadian wheat diminishes, and if shifting conditions bring about improvement in price, no belief that customers abroad must have Canadian wheat will again lead Canada into a mistaken policy of holding back wheat for higher prices. The lessons of the experience of 1929, from which Canada is still suffering, should not be lost. Canada must sell her wheat, must sell it in large quantities, and must sell it continuously to hold a satisfactory place in the world market.

We cannot afford to give up our place in the market for a month, for a week, or for even a single day. The condition to be hoped for in Canada at the end of the current season is one in which our surplus has been disposed of and there will be no unmanageable carryover to interfere with the marketing of the new crop, under such conditions as may then confront the country.